

MORNING MOCHA

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ECONOMIST
Sonal Badhan

US Fed in its latest meeting has raised the policy rates by 75bps, as inflation continues to soar. Cause of inflation has been attributed to ongoing war and Covid-19 related lockdowns in China, leading to demand-supply mismatch. Policy rate is projected to increase to 3.4% by end of CY22 (1.9% projected in Mar'22), 3.8% by end of CY23 and back to 3.4% by the end of CY24. Growth outlook has been downgraded to 1.7% (CY22) from 2.8% estimated earlier in Mar'22. Inflation is estimated at 5.2% this year versus 4.3% earlier. Showing the impact of elevated prices, retail sales in US fell by -0.3% in May'22 (est.: 0.1%) versus 0.7% in Apr'22.

- Barring Nikkei and Sensex, other global indices rebounded and ended higher. S&P 500 surged by 1.5% as Fed delivered 75bps rate hike in order to tame inflation. FTSE and Hang Seng ended higher by 1.2% and 1.1% each. On the other hand, Sensex (0.3%) ended in red led by losses in power and oil and gas stocks. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	14-06-2022	15-06-2022	% change
Dow Jones	30,365	30,669	1.0
S & P 500	3,735	3,790	1.5
FTSE	7,187	7,273	1.2
Nikkei	26,630	26,326	(1.1)
Hang Seng	21,068	21,308	1.1
Shanghai Comp	3,289	3,305	0.5
Sensex	52,694	52,541	(0.3)
Nifty	15,732	15,692	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended higher against the dollar. DXY retreated by 0.3% post Fed rate hike. Euro rose by 0.3% ahead of emergency meeting called by ECB council. GBP was up by 1.5% awaiting at least 25bps rate hike in the upcoming BoE policy meet. INR depreciated further. However, it is trading higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	14-06-2022	15-06-2022	% change
EUR/USD	1.0416	1.0444	0.3
GBP/USD	1.1997	1.2180	1.5
USD/JPY	135.47	133.84	1.2
USD/INR	78.01	78.07	(0.1)
USD/CNY	6.7410	6.7149	0.4

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed with yields in developed markets declining significantly. US 10Y yield fell the most (19bps) as Fed indicated that policy rates will come in CY24 as inflation comes down. UK (12bps) and Germany



(11bps) too declined. India's 10Y yield rose a tad by 1bps to 7.59%, awaiting cues from global markets.

Fig 3 – Bond 10Y yield

	14-06-2022	15-06-2022	change in bps
US	3.47	3.28	(19)
UK	2.59	2.47	(12)
Germany	1.76	1.64	(11)
Japan	0.25	0.26	1
China	2.81	2.82	1
India	7.58	7.59	1

Source: Bloomberg, Bank of Baroda Research

Short-term rates inched up in RBI's latest auction. Longer-end rates increased the most, with 91-day cut-off yield closing 11bps higher and 364-day 16bps higher.

Fig 4 – Short term rates

	14-06-2022	15-06-2022	% change
Tbill-91 days	5.0	5.0	8
Tbill-192 days	5.6	5.7	10
Tbill-364 days	6.1	6.3	17
G-Sec 2Y	6.6	6.6	1
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.7	0.7	(4)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	14-06-2022	15-06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.6)	(3.5)	0.1
Reverse repo	1.0	1.0	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	13-06-2022	14-06-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(498.6)	(565.6)	(67.0)
Debt	(42.2)	(12.7)	29.6
Equity	(456.4)	(552.9)	(96.6)
Mutual funds (Rs cr)	(1,011.0)	495.3	1,506.4
Debt	(1,508.0)	(457.9)	1,050.2
Equity	497.0	953.2	456.2

Source: Bloomberg, Bank of Baroda Research; Note-Mutual Fund data pertains to 7 and 8 June 2022

- Brent crude prices fell by 2.2% over fears of dent in consumer demand (US retail sales contracted) and resurgence in Covid-19 cases in China. On the other hand, gold prices rose by 1.4% as US\$ retreated following Fed's decision.

Fig 7 – Commodities

	14-06-2022	15-06-2022	% change
Brent crude (US\$/bbl)	121.2	118.5	(2.2)
Gold (US\$/ Troy Ounce)	1,808.5	1,833.8	1.4
Copper (US\$/ MT)	9,218.8	9,224.5	0.1
Zinc (US\$/MT)	3,629.8	3,698.5	1.9
Aluminium (US\$/MT)	2,570.0	2,592.5	0.9

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com